

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 5, 2017

Volume 10 Issue 64

Market Overview



Signals Overview

| Aggregator | Aggressive VIX | QE Buy Pwr / SOMA Swing |
|------------|----------------|-------------------------|
| Long | 100% Long XIV | Flat |

Tonight's Research Points

- SPY's mild up close near the top of its range suggests a bearish 1-day edge.
- Very small gains after multiple down days have often been followed by more selling.

Short-term Outlook

The Bottom Line

Wednesday looks dicey, but there still seems to be a bit of an upside edge when looking out a few days.

Summary of Recent Active Studies (see Letters from listed dates for details)

| Study Date | Description | Time span | Bias | Avg Run-up | Avg DrawDn | Avg DrawDn - 1 Std Dev |
|----------------------------|-------------------------------------|-----------|---------|------------|------------|------------------------|
| Active - Short Term | | | | | | |
| April 5, 2017 | SPY up < 0.25%. Top 10% range. | 1 day | Bearish | | | |
| April 5, 2017 | Down 2 days then up < 0.2% | 1 day | Bearish | | | |
| April 3, 2017 | Early April bullish | 1-4 days | Bullish | 1.80% | -1.15% | -2.75% |
| March 29, 2017 | 20-low to 4-day high | 1-8 days | Bullish | 2.25% | -1.60% | -3.30% |
| Active - Long Term | | | | | | |
| March 29, 2017 | 20-low to 4-day high | 1-20 days | Bullish | 3.40% | -2.70% | -5.40% |
| March 28, 2017 | Turn Tues 3 dn & 20-low | 1-10 days | Bullish | | | |
| March 23, 2017 | 20-low yest. 20-low then up today | 1-10 days | Bullish | | | |
| January 9, 2017 | NASDAQ Leading | int term | Bullish | | | |
| April 26, 2016 | Golden Cross | int term | Bullish | | | |
| November 3, 2014 | Quantitative Easing Ends | int term | Bearish | | | |
| July 22, 2013 | New High Divergence (Study of Tops) | int term | Bearish | | | |

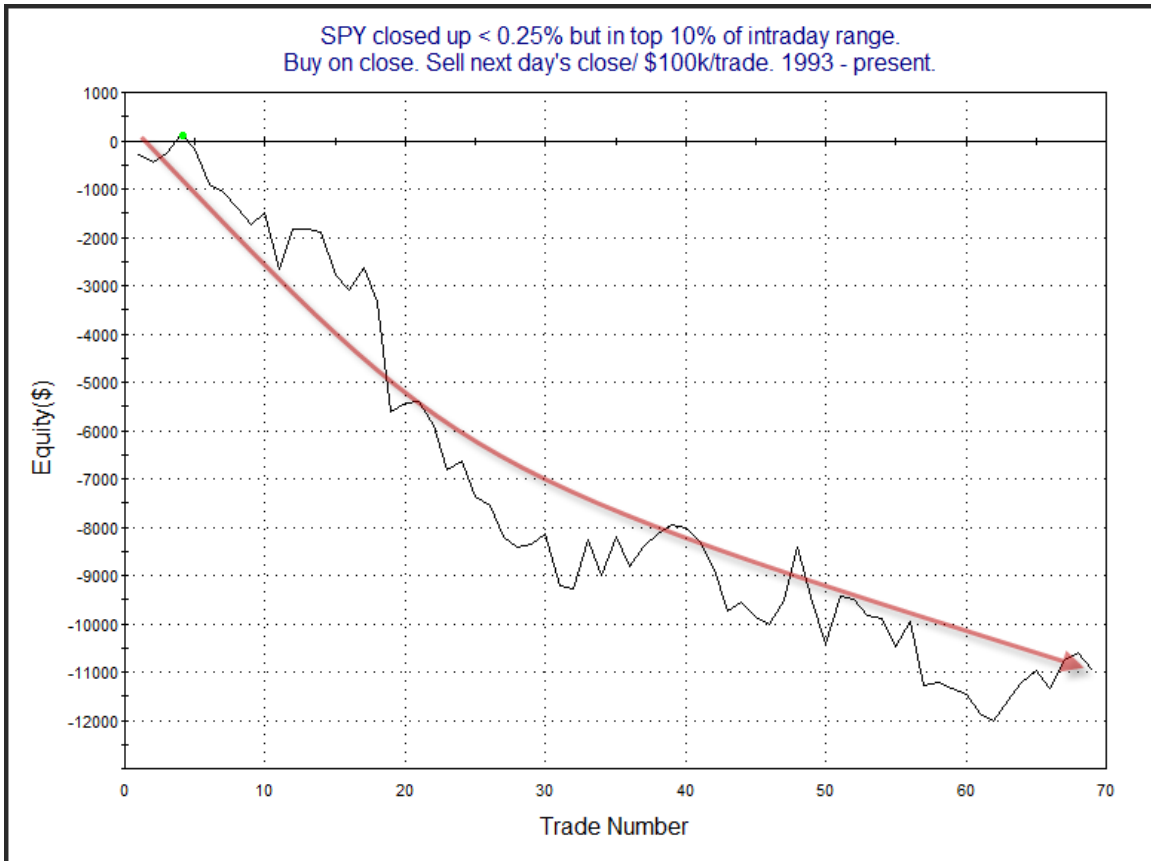
The Evidence

After spending much of the day down, the market finished mixed on Tuesday. The SPX gained 0.06%, the NASDAQ rose 0.07%, and the Russell 2000 declined 0.11%. Breadth was negative as the NYSE Up Issues % was 50.3% and the Up Volume % came in at 52%. NYSE volume declined some from Monday's level.

One interesting study to appear in the Quantifinder was the one below, which was last seen just last week in the 3/14/17 subscriber letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

| SPY closed up < 0.25% but in top 10% of intraday range. Buy on close. Sell next day's close/ \$100k/trade. 1993 - present. | | | |
|---|---------------|--------------------------|---------------|
| TradeStation Performance Summary | | | Expand |
| All Trades | | | |
| Total Net Profit | (\$10,967.66) | Profit Factor | 0.49 |
| Gross Profit | \$10,577.89 | Gross Loss | (\$21,545.55) |
| Total Number of Trades | 69 | Percent Profitable | 39.13% |
| Winning Trades | 27 | Losing Trades | 42 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | (\$158.95) | Ratio Avg. Win:Avg. Loss | 0.76 |
| Avg. Winning Trade | \$391.77 | Avg. Losing Trade | (\$512.99) |
| Largest Winning Trade | \$1,093.35 | Largest Losing Trade | (\$2,290.72) |

As you can see there appears to be a bit of a bearish inclination. Below is a profit curve showing how the edge has played out over time.



It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day. While some recent instances have gone the opposite way, I am not yet concerned that the edge no longer persists.

And another study also suggested the SPX bounce was so weak that it could be a concern. In the 12/27/16 letter I looked to see whether there was a substantial difference in performance following a small move down after two down days versus a small move up after two down days. Below I have updated that study.

First let's consider what happens after two down days are followed by a third lower close, but that third close is a drop of less than 0.2%.

SPX declines for the 3rd day in a row. Today's drop is < 0.2%.
Buy on close. Sell X days later. \$100k/trade. 1999 - present.

| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 5 | 15,691.25 | 45 | 22 | 23 | 48.89 | 2,108.42 | 5,379.66 | -1,334.52 | -3,579.52 | 1.58 | 1.51 | 348.69 |
| 4 | 12,968.90 | 46 | 26 | 20 | 56.52 | 1,660.51 | 5,553.52 | -1,510.21 | -4,672.36 | 1.10 | 1.43 | 281.93 |
| 3 | -1,133.38 | 46 | 27 | 19 | 58.70 | 1,355.66 | 4,047.64 | -1,986.11 | -6,686.40 | 0.68 | 0.97 | -24.64 |
| 2 | 9,743.24 | 46 | 29 | 17 | 63.04 | 1,304.04 | 4,123.60 | -1,651.40 | -4,296.24 | 0.79 | 1.35 | 211.81 |
| 1 | 9,684.79 | 46 | 32 | 14 | 69.57 | 792.28 | 2,286.08 | -1,119.15 | -2,452.26 | 0.71 | 1.62 | 210.54 |

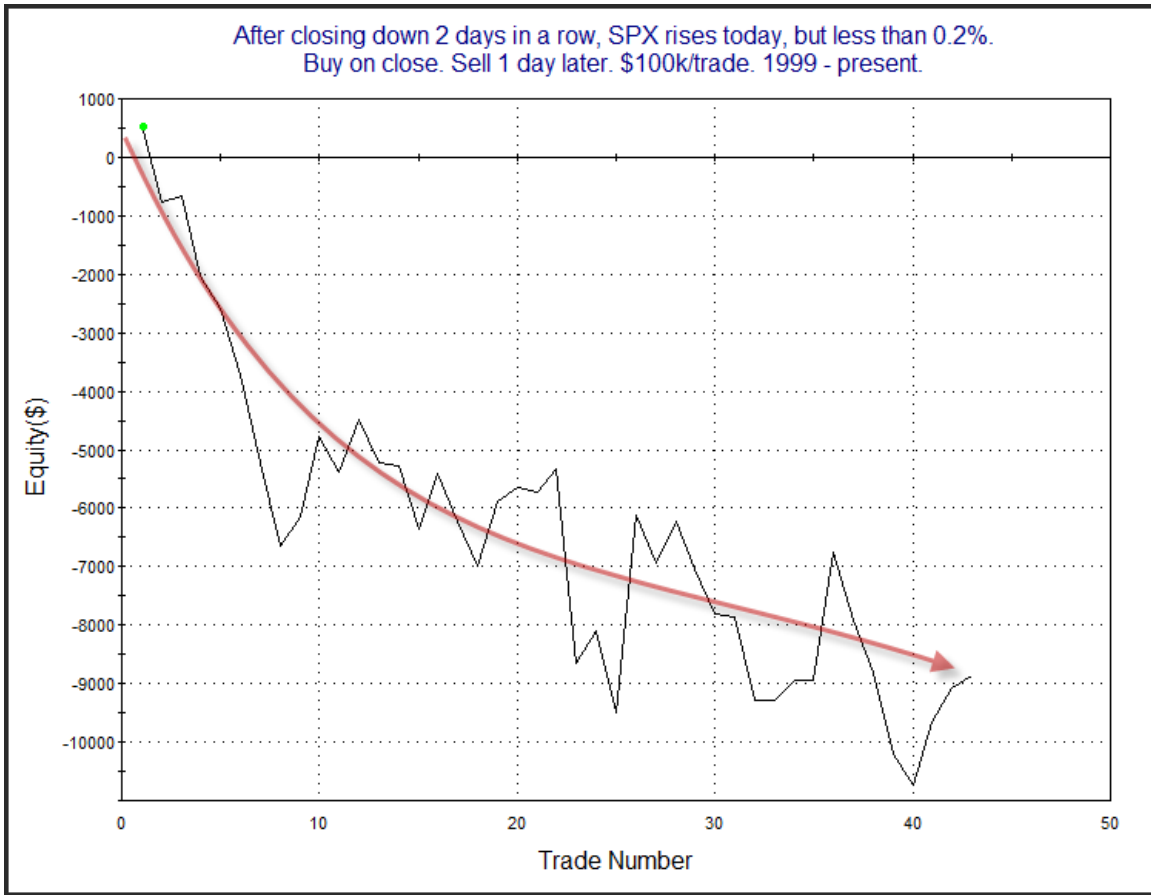
Results here are a bit mixed, but at least day one appears to suggest a bit of an upside edge.

Now let's look at times like the present where two down days were followed by an up day, but that up day rose less than 0.2%.

After closing down 2 days in a row, SPX rises today, but less than 0.2%.
Buy on close. Sell X days later. \$100k/trade. 1999 - present.

| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 5 | 12,946.50 | 43 | 22 | 21 | 51.16 | 2,156.28 | 7,590.88 | -1,642.46 | -5,506.23 | 1.31 | 1.38 | 301.08 |
| 4 | -8,695.08 | 43 | 20 | 23 | 46.51 | 1,607.01 | 4,662.24 | -1,775.45 | -7,588.98 | 0.91 | 0.79 | -202.21 |
| 3 | -8,918.93 | 43 | 18 | 25 | 41.86 | 1,586.96 | 3,939.79 | -1,499.37 | -5,685.45 | 1.06 | 0.76 | -207.42 |
| 2 | -2,833.20 | 43 | 18 | 25 | 41.86 | 1,396.47 | 4,732.64 | -1,118.79 | -3,197.70 | 1.25 | 0.90 | -65.89 |
| 1 | -8,863.67 | 43 | 19 | 24 | 44.19 | 796.51 | 3,390.64 | -999.89 | -3,325.38 | 0.80 | 0.63 | -206.13 |

As you can see, results here suggest a small down day is substantially different than a small up day. While not overwhelming, the edge in this case would appear to be for more downside, all of which is realized on day one. Lastly, I decided to show a profit curve assuming a 1-day holding period.



I don't love this curve, but I suppose it is good enough to merit some small consideration.

I have updated the Aggregator chart below.



With the two very short-term bearish studies being added tonight the green Aggregator Line still remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal stayed long at the close.

The current list of studies is set to leave expectations positive on Wednesday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2374.45 on Wednesday. That is 0.6% above Tuesday's close. Therefore, SPX will need to close at least 0.6% higher in order to move from oversold to overbought versus expectations on Wednesday.

While 3-day expectations remain positive and the Aggregator formation remains bullish, 1-day expectations are now negative. This leaves the 1-day risk/reward seen at the top of the letter in a neutral state. I have some long exposure. With the 1-day looking uncertain I am not inclined to add to it. But since the Aggregator and 3-day expectations remain positive I will continue to hold onto my current exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/3 – bullish

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

BRK.B – 1/3 @ \$172.82 (bought @ limit)

BRK.B – 1/3 @ \$172.07 (bought @ limit)

BRK.B – 1/3 @ \$172.07 (bought @ limit)

JNJ – 1/3 @ \$125.48 (buy @ limit)

Broad Market Large Cap CBI – 4(BRK.B-3, JNJ)

Additional New Trade Ideas

A full listing of system triggers can be found at the [numbered systems page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

None tonight.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|------------|------------|-------------|---------------|-------------|------|------------|
| BRK.B(1/3) | 3/20/2017 | \$172.30 | \$166.86 | -3.16% | | Catapult |
| BRK.B(1/3) | 3/21/2017 | \$172.07 | \$166.86 | -3.03% | | Catapult |
| BRK.B(1/3) | 3/23/2017 | \$169.10 | \$166.86 | -1.32% | | Catapult |
| JNJ(1/3) | 3/27/2017 | \$125.16 | \$124.68 | -0.38% | | Catapult |
| SPY(1/4) | 4/3/2017 | \$235.33 | \$235.48 | 0.06% | | Aggregator |

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